Memorandum

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Subject: Telephone Interview with [redacted]

Date: April 30, 1996

To: Files

From: Tara Sweeney

b.4, 7D

8 This morning Jill Ptacek, Nina Hale, and I spoke with [redacted]

He explained that their products are purchased by impulse approximately 68 percent of the time. He believes that the industry is changing dramatically. [redacted] DSD, on the other b4, 7D

[redacted]

The industry was originally based on selling products at a good price. Today, the focus is to get their products into the store and staying on the shelves. [redacted] He said the larger companies are able to pay money for shelf space and promotions. Consequently, they are forced to focus their business on the private labels. Frito Lay, for example, has no private labels. In the past, private label agreements were not contracted. They were built on long term relationships of 30 to 35 years. Recently, however, they have negotiated 2 five year contracts. They deal with private labels as far [redacted]

He estimates that [redacted] percent of their DSD is market is with grocery stores. They do not have much business with convenient stores because they don't have the money to play the game.

Typically, convenient stores ask how much are they will to pay to keep their products in the store. Recently, they had their products removed from a national grocery store called [redacted] This chain sent a letter out asking for an annual payment. As a [redacted] they do not have the money for this extra expenditure. Margins in the salty food industry is [redacted] percent; if they end up giving more to the stores, there is no reason for them to stay in business.

They have their own distribution and sales system for DSD. The higher level executives, however, will arrange for shelf space. He believes that it is ethnically wrong to pay money for shelf space. He explained that about ten years ago Frito Lay started the practice of offering money for space on the shelves with Pepisco. He said that this practice changed the industry dramatically. He suggested that if we look at the salty food producers in the market before Frito Lay started this practice and compare it to the producers today, we would notice a high percentage of drop outs. He says that this is all because of Frito Lay's new practice. He explained the "Mom and Pop" grocery stores are in trouble. The small stores of rural America are being replaced by the super mega stores.

He says that salty food industry is a $15 billion industry. Frito Lay makes approximately $8 billion. They typically have at least 50 percent of any store's market. He explained that nearly all stores ask for some sort of slotting fee. He explained that when the Eagle products were pulled from the shelves, extra space opened up on the shelves. During this time, the stores asked who was willing to pay for these shelves. Frito Lay's slotting fee payments are not proportionate to their overall market share; a [redacted] company is expected to pay the same amount as Frito Lay. b4, 7D

[redacted] He states that in [redacted] used to have approximately [redacted] percent market share. This has changed dramatically as they are unable to advertise. They presently have approximately [redacted] percent of the potato chip industry and a little less than that overall. He believes that they have a [redacted]

Other competitors include [redacted] He states some of their major distributors include [redacted] He explained that in [redacted] has about [redacted] percent of the market. He previously had a private label agreement with them. Recently a new competitor has taken over that private label business for them and as a result have taken over [redacted] shelf space for DSD. When [redacted] tried to contact them, they explained that they had [redacted] He explained that they may charge [redacted] for an ad to be run for [redacted] stores. This means approximately [redacted] per store. If they are working at a [redacted] margin they need to make approximately [redacted] in one week to break even per store. If they are selling their product at a retail price of [redacted] they must sell [redacted] units/ store which means [redacted] people must be buying their products. He says this is absolutely ludicrous and they are completely unable to compete. As a result, he has lost [redacted] percent of his shelf space. He submitted proposals to try to match this offer, but they were never received. He wants to emphasize, however, that no store has completely kept them out of their local market.

b4, 7D

Convenient stores, however, are another game all together. He has approached [redacted] and was told that they only want to deal with one provider -- Frito Lay. Frito Lay is able to serve all of their locations. He states that [redacted] gave them the opportunity to buy shelf space, however they didn't have the money In general, this isn't a bidding industry. If XYZ company offers the product for a nickel cheaper, they wouldn't go back and try to bid down a lower price. He says price is a factor, but quality and service is also considered.

He explains that [redacted] has not done any advertising in the [redacted] due to financial constraints. All of their promotional marketing is done at the store level. He has offered a series of rebates or bonuses whereby if a store sells a certain volume, they will discount X amount off on the store's invoice. For example, if a store took out an A ad(full page newsprint spread), he would take [redacted] off for every unit that was sold. If they had a secondary display he would also consider a rebate.

b4, 7D

He gave another example of a small chain which had [redacted]

He says that Frito Lay is the only player in the industry that doesn't kept its shelves full. The shop owners aren't concerned about this however, because they are able to make a go of the business with their up front profit on shelf space. They don't necessarily have to sell anything. He explains that whatever they actually sell is a bonus to them.

He suggests that the only companies [redacted] He says that lack of shelf space is a major factor for these companies going out of business. He says that competition is better [redacted] with regional companies such as [redacted] 7D

He doesn't believe that the national companies (Proctor and Gamble and Frito Lay) have any advantage with their diversified product lines.

He suggested we talk with [redacted]